ANNEXURE 9

RANDFONTEIN LOCAL MUNICIPALITY

BUDGET POLICY 2016/2017

BUDGET POLICY PREAMBLE

The object of the MFMA is to secure sound and sustainable management of the financial affairs of the municipalities and other institutions in the local sphere of government; to establish treasury norms and standards for the local sphere of government; and to provide for matters connected therewith.

WHEREAS Section 215 of the Constitution of the Republic of the South Africa, 1996 requires the National, Provincial and Local sphere of government to draft budgets that promotes transparency, accountability and the effective financial management of the economy, debt and the public sector. The constitution furthermore states that budget in each sphere of government must contain:

a) estimates of revenue and expenditure, differentiating between capital and operating expenditure,
b) proposals for financing any anticipated deficit for the period to which they apply, and
c) an indication of intension regarding borrowing and other forms of public liability that will increase public debt during the ensuing year.

WHEREAS Section 16 of the Local Government: Municipal Finance Management Act, 2003 (Acts 56 0f 2003) requires that Municipal approves annual budget before the start of the financial year, adopt, maintain and implement a Budget Policy.

WHEREAS Section 56 of the Municipal Structure Act, 1998 (Act 117 of 1998) prescribes the function and powers of the Executive Mayor who must recommend to the municipality the Integrated Development Plan which carries the financial plan and budget projections to carry out service delivery. The Mayor delegates this responsibility to the Accounting Officer to prepare the budget together with the Chief Financial Officer, Senior Managers and other Officials.

WHEREAS Section 26 of the Municipal Systems Act, 2000 (Act 32 of 2000) requires the Municipality to have the Integrated plan with a financial plan, which must include a budget projection for at least the next three years;

And **WHEREAS** the Council has approved the five (5) year programme which prescribes the management of Municipality financial affairs through determination of priorities, the planning of Medium Term Framework.

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i. PREFACE

Council policies are action plans that describe how a municipality is going to achieve its vision. When councillors approve a policy, they set the broad framework within which the councillors and officials will take decisions and how they will implement the decisions. Efficient financial planning and management will ensure that funds are transparently planned for and will secure sound and sustainable management of the fiscal and financial affairs of the municipality through the implementation of sound council policies.

Accountability as a function of financial management is a very important duty for both councillors and officials. Residents of the municipal area indicated their trust in those elected to effectively manage the financial resources contributed to local government. This is a huge responsibility as local authorities are responsible for managing significant amounts of financial resources and delivering services that affect people every day. Councillors and Officials have a duty to ensure that these monies are managed properly. The budget policy is an integral part of sound financial management that is required to meet the responsibility that the community bestowed on the councillors and officials.

The formulation of a budget policy has become essential to enable Randfontein Local Municipality to attain its strategic objectives in line with the municipality's Strategic Plan and to comply with the Municipal Finance Management Act. (Act 56 of 2003). It is envisaged that this policy may be amended form time to time, depending on legislative changes.

The Budget Policy is prepared based on the guidelines that are distributed by way of National Treasury guidelines to Local governments. Since the inception of the guidelines by Treasury, the guidelines had served two purposes:

- It details the process and format that departments are requested to follow when preparing their budget documentation, and
- Key budget reforms are announced and advice is given on the "best practice" when implementing changes and enhancements in the manner in which public finances are managed.

References will be made in the text to a particular legislation without quoting it verbatim. The users of this policy should therefore refer to the legislation for the exact text.

ii. DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act has the same meaning as in the Act, and –

ACCOUNTING – the essential process of keeping track of money, both income or revenues received, and the expenditure going out.

AUDIT – the inspection of accounting records and testing of systems of internal control. The two main types of audits are external and internal.

BUDGET– the local authority's financial plan of action for a multi financial cycle. The two types of budget are operational and capital. Capital budget refers to expenditure on assets with a lifespan of more than one year or expenditure on existing assets that improves the life span of the asset or its productivity whilst Operating Budget deals with recurrent and short term expenditure, like salaries, phone bills, fuel and stationery.

SERVICES DELIVERY AND BUDGET IMPLEMENTATION PLAN/ BUSINESS PLANS – Narrative report containing information on the objectives of the organization or programmes, how objectives intend to be achieved through action plans, targets dates for implementation, resources required, people responsible for implementing plans and how success in implementing action plans will be measured.

CAPITAL ASSETS – Assets that are expected to be of continued use over a number of years like electricity networks or buildings. The future economic benefit or potential service provision embodies in an assets is the potential to contribute, directly or indirectly, to the cash and the cash equivalent of the municipality as well as to the delivery of services.

DEFICIT – A deficit (short or fall) occurs when more money is spent (expenditure that the amount that was raised/levied (Income).

EXPENDITURE – Money spent on operating and capital expenditure.

FINANCIAL MANAGEMENT – A series of process including budgeting funds, safeguarding income, capital and assets, monitoring performance and financial reporting.

FINANCIAL STATEMENTS – A summary of the annual financial records of the municipality that provides a picture of the functioning of the local authority in monetary terms.

FINANCIAL YEAR – The financial year of local authorities runs from 1st July to 30th June of the following year.

FRUITLESS AND WASTEFUL EXPENDITURE – This is Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GRANTS – Grants are amount of money including subsidies given to local authority by the National, Provincial government and District Municipality to fund certain functions such as roads and storm water, sanitation, water and health care. Grants can also be received from members of the public or other institutions. In contrast to loans however there are additional (where conditions are set against expenditure) and non-conditional grants.

INCOME- The money raised by local authorities.

INCREMENTAL BUDGETING – One method of preparing the budgets in local authorities. The budget for the next financial is based on the actual income and expenditure of the previous year adjusted for expected price increase or inflationary increase.

INFLATION – A persistent rise in the level of prices and wages throughout a country's economy thereby decreasing the value of the country's currency. If the inflation rate increases from one year to another, it means that consumers get less value for the same amount of money compared to previous years.

INTEGRATED DEVELOPMENT PLAN – This is a plan that every local authority is required to prepare in terms of legislation. The plan should sort out the economic and social development that is required in local authority to develop and integrate communities. The plan should be based on community needs.

INTEREST – In the financial world, whenever someone borrows money, that person will have to repay more than they actually borrowed. This additional amount is called Interest and is the profit that the lender makes from lending money to someone else.

INTEREST RATE – This is the amount of the interest rate that is charged on a loan (or received on a deposit) over a year, and it is expressed as a percentage.

INTERNAL CONTROLS – These are laid down internal rules, which set out the procedures which employees must comply with when doing their duties.

LOAN – A loan is sum of money that is lent to a borrower on conditions that this is repaid, either in instalment or all at once at a future date. The borrower usually has to pay the lender an agreed rate of interest.

OFFICIAL – Any of the following:

- An employee of a municipality
- A person contracted by the municipality to work as a member of staff otherwise as an employee
- A person seconded to a municipality to work as a member of staff (MFMA)

OVERSPENDING –

- Causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriate in that year's budget for its operational or capital expenditure, as the case may be;
- In relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote.

PROGRAMME BUDGETING –

- Used by National and Provincial Governments as well as Local authorities. Activities performed by departments are classified as programmes that describe what the departments are going to achieve.

RATES – Taxes raised based on property values (market value).

RATES ASSESSMENT – Is the invoice setting out the rates payable by each ratepayer.

RATE BASE - All the individual property owners and businesses that are legally required to pay to the local authority.

SERVICE CHARGES – Charges made by local authorities to consumers for the provision and consumption of services such as electricity, water, refuse and sewerage.

SURPLUS – A surplus occurs when the amount of income exceeds the amount of expenditure.

UNAUTHORISED EXPENDITURE – Any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes overspending as defined in the term overspending.

VALUATION ROLL – The valuator rolls record the market value of the property within the municipal area. These property values are used to determine the rates for each ratepayer.

VIREMENT – Virement is a process whereby the unused budget of a specific line item of expenditure is used to finance a different line item of expenditure which is unbudgeted.

VOTE – A vote is one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments of functional area concerned. (MFMA).

ZERO BASED – As opposed to incremental budgeting, zero-based budgeting means that each year's budget is drawn up independently from that of the previous year. This means that items are not included simply because they were in the previous budget. Each item has to be justified and motivated for and the purpose of each item is considered. All items in the capital budget are treated on a 'zero-basis'.

USEFUL LIFE – the period of time over which an asset is expected to be used or number of production units expected from the asset.

iii. INTRODUCTION

The management of the financial affairs of a municipality, including the determination of priorities, the planning of the Medium-term Revenue and Expenditure Framework and the monitoring of the budget is driven by legislation.
The Municipal System Act addresses the role of local government in the society and the planning processes such as the Integrated Development Plan that supersedes the budgeting process.

To summarize: The strategic planning and budgeting processes should be based on the following guiding principles:

Principle 1 –Establish Broad Goals to Guide Government Decision Making:

a) A government should have broad goals that provide the overall direction for the government and serve as a basis for decision making.
b) Randfontein Local Municipality has developed a five year strategic plan to (IDP) provide overall direction for service delivery backlogs and to comply with the Municipal Finance Management Act. The objectives in the five year plan are:

- To provide sustainable services to the community;
- To promote a sound environmental management system;
- To provide sound governance for local communities;
- To ensure sound governance practices within the Municipality;

Principle 2 – Develop Approaches to Achieve Goals

a) A government should have specific policies, plans, programs, and management strategies to define how it will achieve its long-term goals.

b) Randfontein Local Municipality has developed measurable performance objectives with Key Performance Indicators, Municipal Targets, and Key Drivers to define how it will achieve long term objectives.

Principle 3 – Develop a Budget with Approaches to Achieve Goals

a) A financial plan and budget that moves towards achievement of goals, within the constraints of available resources, should be prepared and adopted.

b) The proposed budget should be affordable. The rates, tariffs and other charges increases should be within the CPIX range, take into account labour and other input costs of services provided by the municipality, the need to ensure financial sustainability, local economic conditions and the affordability of services and taking into consideration the municipality's indigents policy.

Principle 4- Evaluate Performance and make adjustments

a) Programs and financial performance should be continually evaluated, and adjustments made, to encourage progress towards achieving goals.

b) Randfontein Local Municipality has established targets with key performance indicators reflected in the Municipality's scorecard to continually evaluate the budget against the long term strategic objectives.

iv. LEGAL ENVIRONMENT

Legislation and Policy Strategy

Randfontein Local Municipality is committed to comply with applicable legislation as it pertains to budgeting and financial management and the following examples of pieces of legislation are relevant:

- *THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA*
- *THE MUNICIPAL STRUCTURE ACT No.117 of 1998*
- *T HE MUNICIPAL SYSTEM ACT No 32 of 2000*
- *THE MUNICIPAL FINANCE MANAGEMENT ACT No 56 of 2003*
- *MUNICIPAL PROPERTY RATES ACT 6 OF 2004*
- *AND OTHER APPLICABLE BY-LAWS, ORDINANCE OR LEGISLATION*

NATIONAL TREASURY PRACTICES NOTES

Cognizance must be taken of the National Treasury Circulars that may have an impact on the budgeting environment. All National Treasury Circulars will be considered.

v. OBJECTIVES OF THE MUNICIPAL FINANCE MANAGEMENT ACT(MFMA)

Chapter 4 of the Local Government: Municipal Finance Management Act which deals with Municipal Budget came into effect on 1 July 2004.

The objective of the MFMA is to secure sound and sustainable management of the fiscal and financial affairs of municipalities and municipalities entities by establishing norms and standards and other requirements for –

a) ensuring transparency, accountability and appropriate lines of responsibility in the fiscal and financial affairs of municipalities and municipal entities;
b) the management of their revenues, expenditures, assets and liabilities and the handling of their financial dealings;
c) budgetary and financial planning processes and the co-ordination of those processes with the processes of organs of the state in other sphere of government;
d) borrowing
e) the handling of financial problems in municipalities;
f) Supply Chain Management; and
g) Other financial matters.

vi. IMPLEMENTATION OF THE BUDGET POLICY

This policy applies to:

a) Financial Planning (Business Planning)
b) Financial Modelling
c) Budget Capturing
d) Monitoring (Fund Transfers and Adjustments

CHAPTER 1

1. OVERALL OBJECTIVES, PRINCIPLES AND ROLES

The goal of this Budget Policy is to provide all officials with guidelines with respect to the planning and budgeting processes as detailed in the report.

1.1 OBJECTIVES OF BUDGET POLICY

The objective of the Budget Policy as contained in the MFMA is –

a) To give effect to the provision of Section 215 of the Constitution of the Republic of South Africa, 1996;

b) To give effect to the Municipal System Act, (Act no.32 of 2000)

c) To give effect to the provision of the Local Government: Municipal Finance Management Act, (Act no. 56 of 2003)

1.2 RANDFONTEIN LOCAL MUNICIPALITY FINANCIAL MANAGEMENT STRATEGIC OBJECTIVES

To ensure sound governance practices within the municipality. Key Performance Area 4.1 (Good Governance) is achieved when the following are present:

- Participation
- Consensus orientation
- Strategic Vision
- Effectiveness and Efficiency
- Responsiveness
- Equity Building
- Rule of Law
- Transparency
- Accountability

1.3 BUDGET PRINCIPLES

Principles of the Budget Policy are to be adhered to for implementation during the budgeting process.

a) Rates and increases take into account the need to address infrastructure related expenditure.

b) Maintain best practice logics within the planning context always taking into consideration the balanced budget constraint.

c) An analysis of performance trend in terms operational and capital components, with specific attention being given to underperforming .

d) No detail business plans and failure to meet deadlines given no budget allocation.

e) “Ring –fence” specific allocation to departments.

f) Tariff increase to respond to the following:

- Division of Revenue Act
- Population growth rate

g) Maintenance Budget as a 5% base on priorities as determined during the IDP process

h) Review the topping-up of Provincial and National mandates (flag out money spent on topping-up), e.g. Libraries and Sports and Recreations.

1.4 ROLE OF THE EXECUTIVE MAYOR

The Council must maintain oversight over the implementation of Budget Policy. For the purpose of such oversight, the Mayor of a Municipality must –

a) Provides political guidance on the priorities to be included in the IDP/Budget proposals and coordinates the annual IDP/Budget process.

b) Take all reasonable steps to ensure that the municipality performs its constitutional statutory functions within the limits of the municipality’s approved budget;

c) The Mayor must, within 30 days of the end of each quarter, submit a report to the council on the implementation of the Budget and the financial state of affairs of the municipality; and

d) Instructs the accounting officer to ensure that the budget is implemented in accordance with the service delivery and budget implementation plan and

that the spending of funds and revenue collection proceed in accordance with the budget.

1.5 ROLE OF THE ACCOUNTING OFFICER (MUNICIPAL MANAGER)

The Municipal Manager is the accounting officer and the administrative authority for the municipality. In the first instance the Municipal Manager is accountable to the Mayor for the implementation of specific agreed output.

In the second instance the Municipal Manager is accountable to the Council from the overall administration of the municipality. The Municipal Manager must be fully aware of the reforms required in order to provide the Executive Mayor, Councillors, Senior Officials with the appropriate guidance and advice on financial and budget issues. Whilst the Municipal Manager may delegate many task to the Chief Financial Officer or other senior officials, this must be done carefully to ensure that all tasks are completed appropriately in the budget.

Accounting Officer (Municipal Manager) should-

a) Implement the municipality's approved budget, including taking all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget.

b) Ensure that revenue and expenditure are properly monitored.

c) Ensure that unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented.

d) When necessary, the accounting officer must prepare and adjustments budgets and submit it to the Executive Mayor for consideration and tabling in the municipal council

e) Report to the municipal council any shortfalls in budget revenue, overspending and necessary steps taken to prevent shortfalls or overspending.

f) Submit to the Executive Mayor actual revenue, borrowings, expenditure and where necessary report the variances on revenue and the budget.

1.6 THE ROLE OF CHIEF FINANCIAL OFFICER (CFO)

The Chief Financial Officer is administratively in charge of the Budget and Treasury office. The Chief Financial Officer has an essential function in assisting the Municipal Manager to carry out his or her financial management responsibilities, in areas ranging from budget preparation to reporting and the development and maintenance of internal control procedures.

The Chief Financial Officer plays a central role in implementing the financial reforms at the direction of the Municipal Manager with assistance of appropriately skilled staff.

1.7 THE ROLE SENIOR MANAGERS AND OTHER OFFICIALS

According to section 78 (1) of the MFMA, the following are the role to be carried by the senior managers and other officials:

a) that the system of financial management and internal control established for the municipality is carried out diligently;

b) ensure that the financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;

c) prevent any unauthorized, irregular or fruitless and wasteful expenditure and other losses;

d) that all revenue due to the municipality is collected;

e) that the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained and

f) submission of information to the accounting officer for compliance with the MFMA is timeously.

CHAPTER 2

2. FINANCIAL PLANNING

Flowing from the strategic planning process, a new process takes shape, namely the budgeting process. Budgeting is essence a set of individual activities linked together in an orderly way to produce the budget. Process charting is a technique to help identity, define, and link all of the activities together so that everyone understands the process; the responsibilities of his or her organization; and the sequence of events.

Budgetary planning and control has the following objectives:

- To ensure that the municipality development strategy objectives are achieved through the Integrated Development Plan (the five year program);
- To compel proper planning;
- To communicate ideas and plans;
- To provide a framework for responsibility accounting;
- To establish a system of control; and
- To motivate employees to improve their performance.

2.1 STEPS IN THE BUDGET PROCESS:

2.1.1 Under the MFMA (section 53(1)) the Executive Mayor is responsible for co-ordinating the annual revision of the IDP and annual budget. The Municipal Manager must assist the Executive Mayor and provide him/her with administrative support, resources and information.

2.1.2 The roles of the Budget Committee are to:

- To recommend to Council the approval of the process and timescales to be followed;
- To monitor progress and take remedial action if things are not going according to the process plan; and
- Agree to the public consultation process to be followed for the IDP and Budget proposals
- Provide political and senior management oversight on the IDP/Budget process plan implementation and proposals emerging from the process

2.1.3 In addition to the above budget process, an IDP/Budget Task Team was established to manage all the operational and administrative aspects of the IDP/Budget Process Plan, including scrutinizing the capital project proposals from Departments in order to assess whether:

- The proposal is actually capital expenditure rather than operational expenditure;
- The capital estimates is accurate
- There are operational budget implications of including the project in the capital budget;
- The capital project proposal is in line with IDP priorities;
- The proposed project plan to be included in the SDBIP is deliverable and
- The cash flow forecast is robust.

2.1.4 Subsequently the Chief Financial Officer will issue budget work plan to various heads of departments based on an approved time schedule of key deadlines by council. These instructions, normally is issued in September of each year, will contain:

- A time table for the completion and approval of the budget, including a Confirmation of responsibilities;
- The initial Medium Term Financial Forecast (MTFF) that indicates the likely level of resources to be available. e.g. percentage increases in salaries and wages that will be granted during the budget year, and guidance issued annually by National Treasury with which the municipality will need to comply in terms of National government policy.

2.2 IDP/BUDGET TIME SCHEDULE FRAMEWORK

2.2.1 Below is a time schedule to be followed in terms of the MFMA to address the specific activities illustrated in the table below. These are key deadlines impacting on the Corporate and Business Planning Process, Integrated Development Plan, Randfontein Local Municipality Strategic Planning and Operational Performance as well as the Budget capturing process.

TIME SCHEDULE OF KEY DEADLINES FOR THE IDP/BUDGET PROCESS PLAN

MONTH	DESCRIPTION
August	The Executive Mayor tables at Council for approval the IDP and Budget Process Plan in terms of Section 21 of the Municipal Systems Act and Section 34 of the Municipal Finance Management Act. Distribution of the Council approved IDP and Budget Process Plan to all relevant stakeholders.
September	Strategic Planning Session to review the current strategic plan of the Municipality, review of past service delivery performance and determine future multiyear political priorities, KPAs, KPIs and Programmes. The Budget Office prepares an initial Medium Term Financial Forecast (MTFF) and indicates the likely level of resources to be available.
October	Public Consultation Process with the community, and other key stakeholders on service delivery performance for the prior year and current year-to-date. Share information on the political priorities and programmes planned for the year/s ahead. Confirmation of ward based priority needs for the year/s ahead.
November	Compile report on the needs for the year/s ahead obtained from the community and other key stakeholders. Prioritisation process of community needs and projects. Executive Managers complete the stage 1 IDP/Budget/SDBIP process input forms (IDP changes, capital project proposals, and operational budget growth requests).

MONTH	DESCRIPTION
December	Second Strategic IDP/Budget Workshop for Mayoral Committee members and Senior Management Team: outcomes • IDP proposals and Budget alignment • Agreement of any changes the Executive Mayor should propose to the IDP for the budget year. • Agreement on the Executive Mayor's initial capital and operational budget proposals for the budget year. • Agreement on the Executive Mayor's initial proposals on tariffs and taxes for the budget year. • Review of the draft mid-year performance and budget monitoring reports. • Agreement of the draft of current year Adjustments Budget Report to be tabled at Council (if required)
January	The Executive Mayor tables at Council: • the current year mid-year performance and budget assessment reports • The current year Adjustments Budget Report, if one is required. • The previous year Annual Report.
February	Directors complete their stage 2 IDP/budget /SDBIP process input forms. Directors meet to : • discuss the draft the coming year's IDP inputs • discuss the coming year's budget proposals
March	Third Strategic IDP/Budget Workshop for Mayoral Committee members and Senior Management Team: outcomes • Agreement of the proposed changes to be made to the IDP to be included in the March Council Report. • Agreement of the coming year's budget proposals to be included in the March Council Budget Report. The IDP, Budget Report, and draft SDBIP tabled at all relevant Portfolio Committees and Mayoral Committee prior to tabling at Council. The Executive Mayor tables the Municipality's Draft Budget Report and IDP at Council.

MONTH	DESCRIPTION
April	Statutory public participation process undertaken on the tabled Draft IDP and Budget . Council obtains the views of the local community, National Treasury, Provincial Treasury, other district, provincial and national organs of state and municipalities. Compilation of the Draft SDBIP.
May	A report on the representations arising from the statutory consultation exercise is written. • To decide whether Council needs to be asked to make changes to the IDP/Budget Report tabled in March to incorporate representations from the community and other stakeholders, and for other reasons unforeseen in March. The IDP, Budget Report, and draft SDBIP tabled at all relevant Portfolio Committees and Mayoral Committee prior to tabling at Council. The Executive Mayor tables the Municipality's Budget Report, IDP, and draft SDBIP at Council for final approval.
June	The IDP and Budget Reports are placed on the municipality's website and sent to National and Provincial Treasuries. The Executive Mayor must agree and approve the SDBIP within 28 days after approval of the budget and ensure that annual performance contracts are concluded in accordance with section 57(2) of the Municipal Systems Act. The Executive Mayor to ensure that the annual performance agreements are linked to the measurable performance objectives approved with the budget and SDBIP. The Executive Mayor submits the approved SDBIP and performance agreements to Council, MEC for local government, and makes it public within 14 days after approval

WORK PLAN FOR DEPARTMENTS

MONTH	PRODUCTION OF THE IDP
September	Guidance note and stage 1 input forms issued to Departments - **second week of September each year** Departments prepare for 1st strategic IDP/Budget workshop
	Strategic Planning Session – last week of September each year
	Strategic Planning Session will review the current strategic plan of the Council.
October	Public Consultation Process with the Community and other key stakeholders on service delivery performance for the prior year and current year-to-date
November	Compile report on the needs for the years ahead obtained from the community and other key stakeholders. Prioritisation process of community needs and projects. Directors complete the stage 1 IDP/Budget process input forms.

MONTH	PRODUCTION OF THE IDP	PRODUCTION OF THE BUDGET	PRODUCTION OF THE SDBIP
November	Finalize stage 1 IDP input forms and submit to Manager IDP – second week of November each year	Finalize stage 1 budget process input forms and submit to Budget Office – second week of November each year. Directors (or representative) attend a meeting with IDP/Budget Task Team to answer questions on capital project proposals - Last week of November each year.	Finalize stage 1 SDBIP input forms and submit to Manager : IDP – second week of November each year. Directors submit their draft 2009/2010 mid-year performance reports - Third week of November each year
December	**Second strategic IDP/Budget Workshop – First week of December each year.**		
January	Departments prepare stage 2 input forms		

MONTH	PRODUCTION OF THE IDP	PRODUCTION OF THE BUDGET	PRODUCTION OF THE SDBIP
February	Finalise stage 2 IDP input forms and submit to Manager : IDP **- first week of February each year** Finalise the Financial Framework Chapter (Chapter 5) of the IDP Finalise the Sector Plans Chapter (Chapter 6) of the IDP	Finalise stage 2 budget process input forms and submit to Budget Office – **first week of February each year** Directors/Managers to attend a meeting with IDP/Budget Task Team to answer questions on capital project proposals – **Second week of February each year**	Finalise stage 2 SDBIP input forms and submit to Manager: IDP **- first week of February each year**
March	**Third Strategic IDP/Budget Workshop – first week of March each year** **IDP AND BUDGET REPORT TABLED AT ALL PORTFOLIO COMMITTEES** **IDP AND BUDGET REPORT TABLED AT COUNCIL**		
April	**STATUTORY PUBLIC CONSULTATION ON THE IDP AND BUDGET PROPOSALS – MMCS AND EXECUTIVE MANAGERS MAY BE ASKED TO PARTICIPATE – DATES TO BE ARRANGED**		

<table>
<tr><th>MONTH</th><th>PRODUCTION OF THE IDP</th><th>PRODUCTION OF THE BUDGET</th><th>PRODUCTION OF THE SDBIP</th></tr>
<tr><td rowspan="4">May</td><td colspan="3">Fourth Strategic IDP/Budget Workshop – first week of May each year</td></tr>
<tr><td></td><td></td><td>Annual performance agreement discussions held</td></tr>
<tr><td colspan="3">IDP AND BUDGET REPORT TABLED AT ALL PORTFOLIO COMMITTEES</td></tr>
<tr><td colspan="3">IDP AND BUDGET REPORT AGREED BY COUNCIL & SDBIP TABLED FOR INFORMATION</td></tr>
<tr><td>June</td><td></td><td></td><td>Annual performance agreements finalised and approved by Executive Mayor – last week of May each year
SDBIP and annual performance agreements made public – end June</td></tr>
<tr><td>July</td><td colspan="3">REVIEW OF PREVIOUS YEAR IDP/BUDGET PROCESS AND SUGGESTIONS FOR ANY CHANGES FOR THE FOLLOWING BUDGET YEAR</td></tr>
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2.3 COMMUNITY CONSULTATION PROCESS

2.3.1 According to section 22 of the MFMA, immediately after an annual budget is tabled in a municipal council the accounting officer must make public the annual budget and documents; Invite the local community to submit representations in connection with the budget; and submit the annual budget to the National Treasury and the relevant provincial treasury in printed and electronic formats.

2.3.2 After considering all budget submissions, the Council must give the Executive Mayor an opportunity to respond to the submissions; and if necessary, to revise the budget and table amendments for consideration by the council.

2.3.3 The tabling of the draft budget in Council will be followed by extensive publication of the budget documentation. The Ward Committees play a significant role in conducting various consultative meetings to receive submissions from stakeholder's formations.

CHAPTER 3

3. FINANCIAL MODELLING

3.1 LONG- TERM FINANCIAL STRATEGIES

3.1.1 Randfontein Local Municipality makes use of the Strategic Plan to inform the Medium-term Revenue and Expenditure Framework compilation. The strategy is updated and remodelled taking into consideration economic changes, guidelines from other National KPA's, strategic and policy direction of the Municipality to ensure sustainability and goal orientated service delivery.

3.1.2 The financial strategy recognizes that the development and Implementation of the various financial planning reforms (e.g. MFMA, GAMAP/GRAP and National Treasury Financial Reforms) have fundamentally changed the approach adopted in terms of financial planning. The need for an integrated approach when appropriating resources has become essential for sustainable outcomes especially taking into consideration the size and diverse challenges of the Municipality.

3.1.3 Medium-term budgeting is based on a set of core principles that relate to:

- Guidelines
- Fiscal policy and budget framework
- Policy priorities
- Political oversight of the budget process
- Budgeting for improved service delivery

3.1.4 The adoption of a long-term financial strategy is based on various factors and financial variables which ultimately influence the budget to be adopted by Council. The following are the major factors that are to be taken into consideration, which will primarily determine the financial approach:

3.1.5 The following are to be considered before embarking on the formulation of the long term financial strategy:

- The first is the economic situation in the country (macro- economic framework).
- The second is the balance between existing revenues and demands for expenditure under existing legislation and policy (revenue and expenditure estimates)

- The third are the policies and programs the local government wishes to pursue through budget expenditures (local government policies and priorities).
- The effect of accepted accounting guidelines
- Asset management principles.

3.2 THE MICRO- ECONOMIC FRAMEWORK

3.2.1 A macro- economic forecast has to be evaluated based on the following components:-

- An analysis of the economy,
- Demographic trends related to employment and other factors
- Trade projections and current account balances
- Money supply and other monetary considerations
- Government influences on the economy
- Inflation, both general and by sector
- Savings and investment trends
- Government indebtedness; and
- Major events influencing the economy

3.2.2 The macro- economic framework is guided by the following principles:-

- The early and careful attention to economic trends as an important foundation for budget formulation. The flexibility in design and management of a budget formulation process does not remain static.
- Each year, it must take into consideration how economic trends will affect revenues and the policy goals of the local government.
- An understanding of the types and extent of likely revenues is needed to guide preliminary decisions about the Municipality's spending and about revenue policy.
- Demographic trend have a direct and significant effect on any local government revenues and expenditures and also on local government policy.
- Develop sound budget proposal based on good understanding of both the Municipality's directions and legal requirements.

3.3 REVENUE AND EXPENDITURE FORECASTING

Revenue and expenditure forecasting are second major preliminary area of importance. The following guiding principles are worth noting and understanding in this regard:

- Revenue and expenditure forecast being the start of the long-term financial strategy and budget formulation process;
- More focused participation;
- The need for accurate revenue forecasts applies to all revenue sources, including funds obtained through operating activities, grants and donations and special funds;
- Revenue estimates are the basis for evaluating expenditure and rate tax policies and for allocating funds for budget formulation;
- Important economic variables affecting revenue estimates are (a) the rate of economic growth (GDP), (b) price levels, (c) the unemployment rate, and (d) interest rates.
- A revenue forecast that assumes a growing economy, high employment, low inflation and low interest rates will protect higher revenues and lower expenditures.
- Revenue estimates cover several years to accommodate a medium-term framework.
- "Political," or overly optimistic, revenue estimates lead to very serious budget problems in the future.

3.4 GENERALLY RECOGNIZED ACCOUNTING PRACTICE (GRAP)

3.4.1 The key aspects of GRAP implementation to the strategy include capitalization and depreciation requirement and the necessity to budget for profit or loss on asset disposal. The budget process requirements will therefore have to consider the further refinement of these accounting standards and policies.

3.5 ASSET MANAGEMENT (INFRASTRUCTURE INVESTMENT AND FUNDING)

3.5.1 Preserving the Investment in existing infrastructure is a key strategy. The Infrastructure Investment Policy must be developed and updated annually to provide for an updating of the impact of various asset renewal strategies. e.g. Asset renewal

3.5.2 The Infrastructure Investment Policy must be constructed to allow for a 'what-if' analysis to illustrate the impact of any variation in renewal levels, and use a 90% target of average annual depreciation as the funding requirement of asset renewal, as well as guide to the selection and prioritization of individual capital projects.

CHAPTER 4

4. BUDGET COMPILATION

PART ONE: OPERATING BUDGET

4.1 OPERATING REVENUE

4.1.1 The Municipality derives its revenue from the following major sources: Property (Assessment) Rates, Electricity, Water, Sanitation, Refuse Removal, Operating and Capital grants (from government and District Municipality) and the balance through minor other charges such as building plan fees, cemeteries, fees traffic agency fees and traffic etc. (direct income).

4.1.2 Trading undertakings and economics services such as water and electricity are supposed to be self-supporting or yield a surplus respectively and therefore constitutes an important part of the income of local authority. Service charges are levied to generate the necessary revenue from the services to render these services effectively. Subsidized and community services are mostly financed from property rates (assessment rates) and limited subsidization by other spheres of government.

4.2 REVENUE ITEMS

4.2.1 The budgeting and accounting system makes provision for a considerable number of revenue items, also known as general ledger accounts. A complete list of items currently in use attached for reference purpose. The structure of the list is managed by the Budget & Treasury Division of the Finance Department. Requests for the addition of new items must be motivated and directed to Budget & Treasury Division.

4.2.2 Revenue items are categorized in terms of GRAP in the following groups:

- Property rates
- Service charges (Electricity, Water, Sanitation and Refuse removal)
- Rental of facilities and equipment
- Interest earned – external investment
- Interest earned – outstanding debtors
- Fines
- Licenses and permits
- Government grants and subsidies
- Other income

- Gains on disposal of Property, Plant and Equipment

4.3 PROPERTY RATES

4.3.1 Section 3(1) of the Local Government Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA) and section 62(1) (f) of the MFMA determines that a municipality must adopt and implement a rates policy on the levying of rates on rateable properties.

4.3.2 Council adopted the rates policy. It must be noted that the Rates Policy is not a static document and has to be reviewed annually by Council during the budget process. The requirement of section 3(e) of the MPRA to identify and quantity the cost to the municipality and any benefit to the local community, can only be determined during the budget process.

4.4 TARIFFS

4.4.1 Tariff charges are affected by external factors such as inflation, government directives and policies, as well as the employment and affordability of the demographics of the resident population. The growth parameters are set by National Treasury, consistent with the target range of the inflation band, to ensure that all spheres of government support the national macroeconomic policies and targets, unless it can be shown that external factors impact otherwise.

4.4.2 The tariff setting process of Randfontein Local Municipality should be guided by tariff policy and methodologies which provide a framework for implementing fair, transparent and affordable changes for the provision of services.

4.4.3 The following principles and guidelines should be considered in tariff setting:-

- The ability of the community to pay for services received;
- The average effect on consumer accounts;
- Realistic revenue estimates through a conservative, objective and analytical process based on realistically expected revenue , taking into consideration available actual revenue and estimated growth percentages;
- Identification and pursuance of grants from national, provincial and other agencies;
- The impact of inflation, the municipal cost index and other cost increased;
- An aggressive policy of collecting revenue (Credit Control and Debt Collection Policy);

- Credible collection rates and collection improvement targets;
- The ability to extend new services and the recovering of costs thereof; and
- Actual performances

4.4.4 Tariffs for the main serves will be compiled taking the revenue and tariff setting strategy as well as budgeting principles and guidelines into consideration.

4.4.5 The tariffs for main services, property rates and all other tariffs (e.g. building plan fees, cemeteries fees etc) are increased annually during the budget process and are effective from 1 July each year.

4.4.6 In order to have the tariff ready for inclusion in the draft budget report and documentation for community consultation purpose during March, the following should be adhered to:

- Amended tariff structures and/or calculations for other services have to be submitted to the Finance Directorate by not later the end of November of the current financial year;
- Tariffs for main services (excluding VAT) and property rates have to be submitted to the Finance Directorate by the relevant Departments (Water and Sanitation, Electricity and Waste removal) by not later than the end of January of the each year as all tariffs are to be revised annually;
- All the tariff schedules should be in the format used for promulgation;
- Any changes emanating since the approval of the draft budget for community consultation purposes will be included in the budget report and documentation to be considered by Council during May;
- For promulgation purpose tariffs have to be approved by council at least 30 days prior to commencement of the new financial year.

4.5 INDIGENT MANAGEMENT POLICY

4.5.1 Randfontein Local Municipality is committed to the provision of basic services to the poor.

4.5.2 The Indigent Management Policy assists the Municipality in meeting its constitutional obligations as it comes to progressively realize the social and economic rights of its indigent residents;

4.5.3 Randfontein Local Municipality make use portion of the equitable share to priorities its budget towards the poor households.

4.6. UNFUNDED AND UNDER- FUNDED MANDATES

4.6 1 Services are to be rendered to the extent of the funding provided by the sphere of government concerned. The devolution of certain National and Provincial government competencies to local authorities and the funding thereof should be viewed within the context of the complex and evolving nature of inter-governmental fiscal relations and co-operative government principles contained in the constitution.

4.6.2 The understanding and definitions in financial terms of funded, under-funded and unfunded mandated is as follows:

- Funded mandate – The income (the grant in particular) totally covers the related expenditure of rendering the services.
- Under-funded/ co-funded mandate- The income (grant) only partially covers the expenditure and the deficit is subsequently financed (funded) by the Municipality.
- Unfunded mandate – the total expenditure of the related mandate is financed by the Municipality in order to render the service.

4.7. OPERATING EXPENDITURE

4.7.1 Expenditure items

The budgeting and accounting system makes provision for a considerable number of expenditure and items known as general ledger accounts. Requests for the addition or renewal of items must be motivated and directed to Budget & Treasury Division of the Finance Directorate.

4.7.2 Expenditure group

Expenditure items are categorized in terms of GFS classification in the following groups which correlate with the group used in the Statement of Financial Performance (Income Statement):

- Employee related costs
- Remuneration of Councillors
- Bad debts/Contribution to provisions
- Collection costs
- Depreciation
- Amortisation of intangible assets
- Repairs and maintenance
- Interest paid
- Bulk purchases

- Contracted services
- Grants and subsidies paid
- General expenses
- Internal recoveries
- Loss on disposal of Property, Plant and Equipment

4.7.3 Medium – Term Revenue and Expenditure Framework Guiding Principles (MTREF)

The following guiding principles have to be considered when compiling the Medium- term Revenue and Expenditure Framework:

- Producing a balanced budget;
- Maintaining fiscal stability;
- Maintaining the commitment to deliver quality services;
- Creating surplus cash to support capital investment;
- The impact of inflation, the municipal cost index and other costs increases;
- Credible collection rates and collection improvement targets;
- Identify alternative funding (leverage with the private sector);
- Free basic services component provided must be taken into account;
- Achievement of an annualized collection rate of 95% for consumer revenue (as per Strategic Plan: 5 Year Plan);
- Ensuring that administrative and non-service areas (administrative and support functions) have been reduced and savings identified that could be used towards service delivery areas;
- Managing down general expenditure and contracted services. The choice of a service provider should be based on which service provider can provide the service most effectively at the lowest cost;
- Maintaining all assets at a level adequate to protect the capital investment and minimize future maintenance and replacement costs.

In addressing the budget pressures, the Municipality will continue to implement cost reduction, mainly by scrutinizing discretionary items, not limited to the following:

- Scaling down the cost of consulting services,
- Paying bills on time so that no late charges are incurred;
- Managing overtime;
- Managing down IT costs (no new laptops, computers and printers);
- Scaling down conferences and seminars;
- Limiting purchasing of furniture; and
- Limiting office renovations.

PART TWO: CAPITAL BUDGET

4.8 CONDITIONS OF CAPITALIZATION

According to GRAP 17 property, plant and equipment are tangible items that:-

a) are held in use in the production or supply of goods or services, for rental to others, for administrative purposes, and
b) are expected to be used during more than one reporting period.

4.8.1 Control, and not ownership, determines whether an item must be recognized as an asset in the municipalities assets register (although control usually coincides with the transfer of ownership). In some cases control may possibly already have been established before actual ownership has taken effect. Due consideration must be given to ascertain whether control over asset is certain and indeed exercised by municipality. Subsequent cost against an item of property, plant and equipment not under the control of Randfontein Local Municipality may also not be approved and should therefore not be included in the capital budget.

4.8.2 The definition refers to tangible (physical) property, plant and equipment. Certain intangible assets that are directly attributable to the realization of tangible, plant and equipment (PPE) are also recognized. This includes all development costs related to creation of an assets, but not feasibility studies, basic planning costs, multi-option designs, etc, as it must be certain at the time the costs are incurred that the eventual assets will indeed realize.

4.8.3 The threshold value (minimum acquisition price) is used, amongst other qualification set out by GRAP, to determine which items need to be capitalized and included in the Asset Register. GRAP 17 requires that all major assets' useful lives be reviewed every year; assets below R5000.00 up to R1000.00 will be treated as minor assets and will be depreciated over 1 year.

4.8.4 All finance leases must be capitalized and will be registered in the assets register. A lease is classified as a finance lease, other than an operating lease, when it transfers substantially all the risks and rewards incident to ownership of the assets from the lessor to the lessee, in return for a payment or series of payments by the lessee to the lessor.

4.9 BUDGETING FOR ASSETS

4.9.1 Only assets approved by the IDP process will be considered for the inclusion in the capital budget.

4.9.2 All draft capital budgets must be in line with this policy and submitted to Council for approval whereupon the Budget Office and the Supply Chain Management Office will put procedures in place to ensure that the Capital provided for in the budget are captured in the approved system per Work breakdown Structure.

4.9.3 Excess budget available on Capital projects may not be used for the purpose other than what the projects was initially intended for. For example, excess budget available on a capital project for upgrading of Electricity Networks (owing to savings for instance) may not be used to purchase computers.

4.10 RECOGNITION OF THE COSTS

4.10.1 The costs of an item of property, plant and equipment shall be recognized as an assets if, and only of;

- It is probable that future economic benefits or service potential associated with them item will follow to the entity, and
- the cost or fair value of the item can be measured reliably

4.10.2 Costs will only be recognized as assets if it is probable that future economic benefits or services potential will flow to the municipality. It must therefore be expected that the items may in future be held in use, either for the production or supply of goods or services, for rental to others or for administrative purposes (expected useful).

4.10.3 Items of which the costs of fair value cannot be measured reliably may not be capitalized. In most cases the costs will be readily identifiable as being the total construction costs or purchase costs of the assets. However in some cases it might be necessary to measure the costs by making use of estimations, independent valuations, industry standards, etc.

4.10.4 A capital projects that appears on the capital budget is only partial evidence that the expenditure may need to be capitalized on incurrence therefore. Projects that have a capital appearance and nature (and have therefore been budgeted as capital) but which may not be capitalized, either partially or in full, will be adjusted to ensure that only costs that comply with this policy are capitalized. The adjustment will therefore be transferred to the operating account.

4.11 RECOGNITION OF PROPERTY, PLANT AND EQUIPMENT

4.11.1 The expected use of the PPE must extend over more than one reporting period (financial year). It therefore follows that the assets must each have a useful life of more than one year. Property held for the purpose of resale within a financial year, for example, is consequently recognized as current assets.

4.11.2 Capital projects started during a financial year but not yet completed at the end of the financial year will be treated as work- in- progress in the financial statements.

4.11.3 Projects system (capital projects), through which assets are acquired/ constructed and the resulting costs incurred must be broken down in such a way that the individual assets, together with their respective costs and originating funding sources, are easily identifiable. This will ensure that the assets are correctly recognized on the assets register. The budgeted amount may not be released against a project unless it has been properly broken down.

4.11.4 It is imperative that all heads of department under whose control the assets falls should notify Supply Chain Management immediately when their projects have been completed and the resulting assets realized in order to ensure the timely registration of these assets on the assets register.

4.11.5 The process whereby Supply Chain Management is informed of the completion of a project is the marking of the projects as “technically complete” by the project manager/cost centre.

4.11.6 The process whereby physical assets are donated to the municipality is an exception to the capitalization of assets through projects. However costs centres owners remain responsible to notify Supply Chain Management of these donations, by making use of the appropriate assets management form, to ensure recognition of the donated assets on the assets register.

4.12 DEPRECIATION

4.12.1 Depreciation is according to GRAP 17, the systematic allocation of the depreciable amount of an asset over its useful life. Depreciable amount is the cost of an assets or other amount substituted for cost, less its residual value. Depreciation forms part of the cost charged to the cost centre where the assets is used and must be included in the operating budget likewise.

4.12.2 All fixed assets, except land and heritage assets, shall be depreciated or amortised in the case of intangible assets. Depreciation will be considered with the help of the Assets Management Policy.

4.12.3 An asset is depreciated over its useful life. The useful life refers to the asset's expected use to the Municipality and is an estimated based on sound judgment. The Municipality employs the straight-line method in the calculation of depreciation.

4.12.4 The depreciation charge for each period is recognized as an expense in the operating budget as well as the statement of financial performance.

CHAPTER 5

5. BUDGET MONITORING AND REVIEW

A. PART ONE: MONITORING

5.1 MONITORING PERFORMANCE

5.1.1 It is important to monitor and review the actual and planned revenue received and expenditure incurred to ensure accountability, transparency and control in the financial affairs of all departments/votes in the Randfontein Local Municipality .

5.1.2 The public has a right to know what the money is being spent on, and what decision their elected representatives make on their behalf. It is only with this knowledge that elected official may be held accountable for their budget planning, allocations and implementation.

5.1.3 Monitoring budgets is also conducive to better decision-making. It is provides a forum for purposeful and concrete engagement between the executive, the legislature and civil society around critical choices and outcomes.

5.1.4 In Randfontein Local Municipality the approved budget is categorized into Operating and Capital budgets and therefore the monitoring thereof will be done accordingly.

5.1.5 Revenue and Expenditure Groups are categorized in terms of GRAP and aligned to the approved MTREF budget. Different rules will be applicable to manageable and non-manageable groups of revenue and expenditure in so far as budget monitoring and control are concerned.

5.2 FINANCIAL VIABILITY

5.2.1 Monitoring and the financial viability of council, particularly transactions affecting Cash Flows is essentials, as it has direct impact on council pursuing its activities as set out in its Strategic Plan. Cash flow management is critical due to the requirements of the MFMA. Section 45 of this act severely limits the municipality's ability to use short term debt.

5.2.2 During the budget compilation process Directorate are required to do periodic planning of all revenue and expenditure for both operating and capital budgets for the following reasons:

- For monitoring of performance as explained:
- For the proper cash flow planning. If the Finance Directorate is forced to arrange for additional loans to bridge the gap caused by a deviation from the periodic planning, the interest on such loans can be seen as fruitless and wasteful expenditure.

5.2.3 Periodic planning for operating revenue and expenditure differ from the planning for capital budget expenditure:

- Planning for the operating budget is done per line item; and
- Planning for the Capital budget is done per project.

5.2.4 Previous revenue and expenditure patterns will assists cost center managers in setting the timing of the cash flows, but they may also be led by other factors.

5.3 REPORTING: OPERATING AND CAPITAL BUDGET.

5.3.1 The purpose of reporting on operating and capital expenditure budget is to provide reasons for the deviations from the SDBIP and to give details of corrective measures that will be taken.

5.3.2 Based on the definition of a "Votes" in terms of the MFMA, each Directorate / within the Municipality is considered a "Vote" and aligned to the approved MTREF, in terms of both the capital and the operating budgets.

5.3.3 The Directors are accountable to report to the municipal manager and the chief financial officer on a capital monthly/ quarterly and annual basis on the deviations in operating and capital budget.

5.3.4 Monitoring of variances for capital projects is the comparison of actual expenditure against expenditure targets set in the Service Delivery and

Budget Implementation Plan (SDBIP) as well as the indicated milestone for the projects.

5.4 INTERNAL REPORTING MECHANISM

- Each month end, every cost centre owner will submit a variance report on deviated line items to their Directors.
- Each month end every project owner will submit a variance report on project variances to their respective Directors.

5.5 COMPULSORY REPORTING

- Each month end the Financial Planning and Treasury will report on the reasons for the variances and the envisaged corrective action to be taken utilizing the information supplied by the cost centre owners/ Directors and submit to the CFO, using the standard format report supplied by this section.

- Each month end the CFO will submit a report to the respective Section 80 Finance.

- Within 30 days of the end of each quarter, Director will submit a report to the CFO on the implementation of the budget .

- A monthly report must be submitted to the Executive Mayor and a quarterly report to the Mayoral Committee listing all Capital budget transfers of R 100 000 or more that has been approved under delegation since the last report, detailing the capital projects that have been amended and any change caused to non-financial targets. This procedure is intended to provide all elected members with advice on material budget transfers.

B. PART TWO: FUND TRANSFERS

5.6 OPERATING BUDGET FUND TRANSFERS

5.6.1 This policy aims at empowering respective Directors to manage their respective operational budgets within the stipulations of the MFMA and to create an environment of accountability within each department.

5.6.2 A prerequisite will however be that all operating budget fund transfers must be authorized by the respective Directors.

5.6.3 This policy and all subsequent transfers will be carefully monitored by the Chief Financial Officer to ensure that all the intended transfers are within the stipulations of the proposed policy.

5.6.4 In order for a “vote” (Department) to transfer funds from one expenditure item to another, a saving has to be identified with the limitations of the approved item allocations on the respective departmental budgets. The vote (department) concerned must ensure that the intended transfer amount is available against the item and must clearly indicate to which item it will be transferred. Any deviation will have to be reported to the Council in terms of sections 15,29,32 and 70 of the MFMA.

5.6.5 All votes(department) will have to ensure that the implications of the intended transfers are known and that these implications have been taken into consideration, bearing in mind their service delivery objectives and outcomes in terms of their strategic operational plans and services delivery implementation plans.

5.6.6 The transfers of funds in the revenue group is not allowed, except in a adjustments budgets or save with the explicit approval of the Council in terms of section 160 of the Constitution.

5.6.7 Some of the expenditure groups are primarily controlled by the Finance Directorates because of their nature and are therefore considered to be non-manageable by the respective departments. Directorates are thus not allowed to do fund transfers with regard to the following expenditure groups:-

- Departmental Changes
- Depreciation
- Finance Charges
- Other Operating Expenses (municipal charges)
- Charge outs.
- Working capital provision

5.6.8 The following expenditure groups can be fully managed by the Directors / managers within the limits of the respective group allocations. Fund transfers can therefore take place between these groups within the vote (departments), provided that the total budget allocation for the combined groups are not exceeded:

- General Expenses
- Repairs and Maintenance

5.6.9 Transferring between salaries, general expenses and repairs and maintenance is not permissible. Permission will be given only if the concerned departments have provided valid reasons or motivations for the transfer to the Accounting Officer (MM).

5.6.10 Transfers between expenditure items, within a specific distribution account within a specific cost centre, may be allowed by the Finance Directorate under special circumstances (i.e. to correct errors in the budget or to provide for unforeseen/unavoidable expenses for which insufficient budget was approved) provided that valid reasons/motivations for the transfer is provided, sufficient savings are identified on other line items within the same specific distribution account and cost centre, and that the bottom-line budget allocation for the specific department is not amended (increased or reduced).

5.6.11 Any amendment to the approved total budget allocation of the department, or the transfer of funds between distribution accounts and cost centres, shall constitute an adjustment and be required to be included in the Municipal Adjustment Budget as prescribed by Section 28 of the MFMA.

5.6.12 All the fund transfers that were done during the budget year will be taken into account during the following year budget process.

5.7 CAPITAL BUDGET FUND TRANSFERS

5.7.1 Considering the definition of a vote in the MFMA (refer to Definition of Key Terms), it is proposed that each department within the Randfontein Local Municipality be considered a vote and that any further reference to vote/votes be considered to be one or more of the following departments:-

- Political Office
- Municipal Manager's Office
- Corporate Support Services
- Financial Services
- Economic Services
- Social Services
- Infrastructure Services
- Public Safety
- Development Planning

5.7.2 Although all individual IDP Capital Projects of the relevant Directorate ("Vote") form the Capital Programs for that particular Vote, the transfer of

funds between projects within programs will only be allowed within the following rules.

5.7.3 Project registration and prioritization continues to be executed via the IDP needs register at IDP project level.

5.7.4 Once the IDP prioritization process is finalized, the necessary budgetary appropriations are applied, within the base-line allocations and affordability levels determined.

5.7.5 The individual IDP projects are then grouped together as related programs, per Directorate (Vote).

5.7.6 IMQS Project Management System provides for the necessary controls at programs level to ensure a high level of accountability. The programs would typically be broken down further into work breakdown structures (WBS) on IDP project level, to facilitate project level, to facilitate project management accountability and execution.

5.7.7 Budgetary allocations are approved at Capital Program Level (total allocation for the Directorate/Vote).

5.7.8 The IDP office will render formal comments with recommendation on the proposed fund transfer taking into consideration imperatives of the strategic plan (5 year plan) as well as operational implications.

5.7.9 The Accounting Officer as defined by the Act has to approve the proposed fund transfer taking into consideration imperatives of the strategic plan (5 year plan) as well as operational implications.

5.7.10 It is important that the Finance Directorate maintain control over any funds transfers, but it is equally important that the IDP Office recommends approval of any consequential changes in priorities.

5.7.11 Fund transfers would therefore be done in a prescribed format (formal report) between individual IDP projects, within the approved Capital Program (Vote), within the approved funding source, to facilitate the effective implementation of the capital programs.

C. PART THREE: ADJUSTMENTS BUDGET

5.8 ADJUSTMENTS BUDGET

5.8.1 A municipality has to revise an approved annual budget through an adjustments budget. The adjustment budget must adjust the revenue and

expenditure estimates downwards if there is material under-collection of revenue. It may also appropriate revenues that have become available, or it may authorize certain other adjustments elucidated in the Act. Only the Executive Mayor may table an adjustments budget in the municipal council. The adjustment budget must be submitted simultaneously with the mid-year review on or before 25 January each year.

5.8.2 The Executive Mayor may within 60 days after unforeseeable and unavoidable expenditure was incurred for the purpose of an emergency or other exceptional circumstance and for which no provision was made in an approved budget, table an adjustments budget.

5.8.3 In terms of the MFMA, essentially three conditions can be defined necessitating an adjustment budget, namely:

- Under-collection of revenue
- Emergency or other exceptional circumstance; and
- Mid-term budget review

5.9 UNDER-COLLECTION OF REVENUE

5.9.1 The Accounting Officer must ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget or in the service delivery budget implementation plan.

5.9.2 Should a material under-collection of revenue become apparent, it will be necessary for the municipality to revise the budgeted revenue levels to a realistic forecast. It is also necessary to revise the expenditure levels associated with this revenue downwards in proportion to the revenue budgeted. This could be undertaken with the mid-term budget review which could result in an adjustment budget.

5.9.3 Should the under-collection however be considered to be material of nature, the CFO should report such under-collection to the Accounting Officer as a matter of urgency to consider implementing corrective measures. Material is normally considered to be 10% or more of an individual item measured against the periodic planning for that item. In some cases the magnitude of the amount concerned may suggest a deviation of less than 10%.

5.10. EMERGENCY OR OTHER EXCEPTIONAL CIRCUMSTANCES

5.10.1 The Executive Mayor may in case of an emergency or other exceptional circumstances authorize unforeseeable and unavoidable expenditure for which no provision was in the annual approved budget of the municipality.

5.11 MID-TERM BUDGET REVIEW

5.11.1 Directorates are required to assess their performance during the first half of the financial year based on their respective services delivery targets, their performance indicators and financial performance. The assessment has to take place on or before 25th January each year according to Section 72 of the MFMA.

5.11.2 The assessment outcomes may or not necessitate budget adjustments. In instances where an adjustments budget is necessitated, an adjustments budget has to be prepared and submitted to Executive Mayor for consideration and tabling in the Municipal Council.

5.11.3 In terms of section 72 (3) of the MFMA the Accounting Officer must as part of the review:-

a) Make recommendations as to whether an adjustments budget is necessary; and
b) Recommend revised projections for revenue and expenditure to the extent that is necessary.

5.11.4 The two processes should run in tandem and require finality on the date instructed by the Act, on or before 25th January each year.

5.11.5 This policy framework is not applicable to situations referred to in Section 31 of the MFMA. Section 31 applies to capital projects approved with multi-year allocations. It allows a 20% increase in a single year's appropriation, provided the increase is funded by a reduction in the following year's appropriation. The MFMA specifies the procedure to be followed, which includes notification to the Provincial Treasury and the Auditor-General.

5.12 PROCEDURAL APPLICATION

5.12.1 The following administrative procedure will have to be adhered to in terms of three classifications as defined and explained under the adjustment budget **(Section 5.8)**. In the event of an emergency or exceptional circumstance

occurring during the first four months of the financial year (July to October), the following procedure shall be adhered to:

a) When the relevant or affected senior management becomes aware of the emergency or exceptional circumstances occurring, he or she should:

b) Immediately inform the Member of Mayoral Committee and the Accounting Officer/ Municipal Manager of the emergency or exceptional circumstances that occurred;

c) Together with the Member of Mayoral Committee; the Accounting officer and the Chief Financial Officer convene an urgent meeting to determine:

- The extent of the emergency or exceptional circumstances;
- The financial implications thereof;
- The urgency and consequences of actions to be taken;
- Whether or not the emergency or exceptional circumstances can be accommodated within the allocations of the approved budget vote;
- Whether or not the emergency or exceptional circumstances would necessitate an amendment to the approved budget; and
- Whether or not the emergency or exceptional circumstances may be dealt with during the mid-term budget and performance review.

5.12.2 The relevant or affected senior management must ascertain and conclude that emergency or exceptional circumstances cannot be managed or accommodated within allocated budget allocations by way of known saving, reprioritization of expenditure, operational gains.

5.12.3 Should this be the case, the relevant senior management must compile a report, in the prescribed, and subsequently submit the report to the Member of Mayoral Committee and Accounting Officer/(Municipal Manager) for evaluation in the consultation with the Chief Financial Officer to determine whether exceptional Adjustment Budget is necessary.

5.12.4 If not, the issue must be held in abeyance until the mid-term budget and performance review to be undertaken in November, December and January which could result in an Adjustment Budget being tabled during February of that financial year.

5.12.5 Should this issue (emergency or exceptional circumstance) necessitate the tabling of an exceptional Adjustment Budget, as to be determined by the Accounting Officer/(Municipal Manager) in consultation with the Chief

Financial Officer, the Accounting Officer/(Municipal Manager) must advise the Executive Mayor as a matter of urgency.

5.12.6 After consideration the relevant facts, the Executive Mayor can authorize the related expenditure in terms of Section 29 of the MFMA. The Executive Mayor must however table the proposed adjustment at the next Council Meeting, and should the adjustment budget not be passed within 60 days of the incurred expenditure, the expenditure can be considered unauthorized and section 32 of the MFMA applies. If expenditure is deemed to be unauthorized, as a result of non-acceptance by the council, section 32 applies where there is a potential for political office bearers, the accounting officer or the other official being held liable for the expenditure.

5.12.7 In the event of an emergency or exceptional circumstances occurring during the months of November, December or January of a particular financial year the following procedure shall be adhered to:

- The issue shall be raised during the mid-term budget and performance review of that particular department.
- Subsequently be included in the Adjustment Budget.

5.12.8 In the event of emergency or exceptional circumstance occurring after the mid-tem review and adjustments budget was finalized, the same procedure as stated for the first four months of the financial year, shall apply.

Abbreviations

BO	**Budget Office**
BP	**Budget Process**
CFO	**Chief Financial Officer**
CPIX	**Consumer Price Index (excluding interest cost on mortgage bonds)**
RLM	**Randfontein Local Municipality**
DoRA	**Division of Revenue Act**
GRAP	**General Recognized Practice**
GPG	**Gauteng Provincial Government**
IDP	**Integrated Development Plan**
IGR	**Intergovernmental Relations System**
LED	**Local Economic Development**
MCI	**Municipal Cost Index**
MFMA	**Municipal Finance Management Act**
MIG	**Municipal Infrastructure Grant**
MM	**Municipal Manager**
MMC	**Member Mayoral Committee**
MPRA	**Municipal Property Rates Act**
MSA	**Municipal System Act**
MTREF	**Medium-term Revenue and Expenditure Framework**

NT	**National Treasury**
PMS	**Performance Management System**
PMU	**Project Management Unit**
PPE	**Property, Plant and Equipment**
SDBIP	**Service Delivery and Budget Implementation Plan**
VAT	**Value Added Tax**